RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Feb. 26, 1997 **LETTER 1220**

CURRENT MARKET: I've said before that this market is not going to "get into trouble" until we get noticeable weakness in one or more of my "Big Four." The Big Four are the **Dow, the S&P 500,** the **advance-decline ratio** and my **Primary Trend Index (PTI).** So saying, what's the status of the Big Four now?

The Dow is a few percentage points off its high as is the S&P 500. By the same token, the A-D ratio and the PTI are just a bit off their highs (see page 2 chart).

As explained in Letter #1211, the **S&P futures now "run" the market.** For that reason, in this Letter I'm showing a daily chart of the March S&P futures along with "momentum" (momentum is shown here as a 13-week rate of change). Momentum often precedes price. In technically strong markets, momentum will turn down, but the market will simply move sideways. This could be what's happening now, since momentum has turnd down, but so far the downside momentum has been rather *unimpressive.*

Fueling the rising stock market recently have been the advancing bonds and the rallying Eurodollars. This may now have halted. With stocks by many measurements "fully valued," the market could easily be in for a "rest." Best advice -- keep your eyes glued to the trend of the PTI (see later article on the PTI in this Letter).

Characteristics: I note two interesting characteristics of this market. The first is that the market will often show weakness through much of the trading session, but in the last hour or two heavy buying comes in and the Averages surge to the plus side -- often to new highs.

A second longer-term characteristic of this market is as follows: the Dow rallies to new highs, but the Transports lag. After weeks or months of lagging, the Transports belatedly rise to a new high, thereby confirming the Dow and re-confirming the bull market. Then the whole process starts again.

"EXUBERANCE": So much for Alan Greenspan's "irrational exuberance." That was the Fed Chairman's description of the surging stock market on December 6, at which point the Dow was 600 points below where it is today. So what will Greenspan do now? (1) Rename it "continuing irrational exuberance." (2) Tighten up on the money supply. (3) Raise Fed Funds a notch. (4) Do nothing. The Russell guess -- *number 4.* **Russell comment:** The value of the stock market is now about 126% of the entire US GDP. This means that any melt-down in the stock market would have disastrous consequences for the US economy. For that reason, I expect Greenspan to be extremely careful with any future comments about the stock market. Mums the word, Alan.

MORE GUESSES: It costs you nothing to guess, and guessing about where the market is going is always fun, so here goes. I asked my battle-hardened buddy, Mike (who I work with), "What do you think the market could do that would surprise the most number of people?" Mike's answer: "Head for Dow 10,000. I don't think even the most optimistic bulls think the Dow is going there." "Mmm," I replied, "interesting thought. Yeah, that would sure surprise me."

"What's your guess?" Mike asked. I answered, "I'm going to guess a high level trading range here." Look, everybody is now "betting" direction -- everyone seems to be either quite bullish or at least optimistic (otherwise they wouldn't be holding stocks) -- or they are quite bearish (looking for, at the very least, a big correction). So my bet -- **no direction, at least for a while.** A high level trading range would prove frustrating for both sides. On top of that there is a huge amount of puts and calls out there -- all betting direction, either up or down. A high level trading range would cause all these options to expire worthless as time runs out.

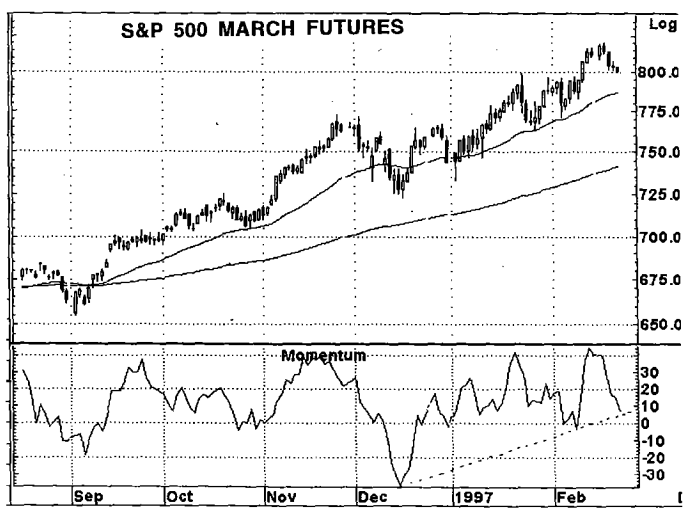
Feb. 14 DJIA 6988.96; PTI 4830; A-D Ratio +4.53
Feb. 21 DJIA 6931.62; PTI 4822; A-D Ratio +4.45
Dow Yield: 1.94%; Dow Price/Earnings: 19.6
Dow 144-day MA: 6317; Dow 34-day MA: 6794
Dow Times Book Value: 5.18; PTI 89-day MA: 4747
Percentage of Undervalued Blue-chips: 4%
Gold 144-day MA: 372

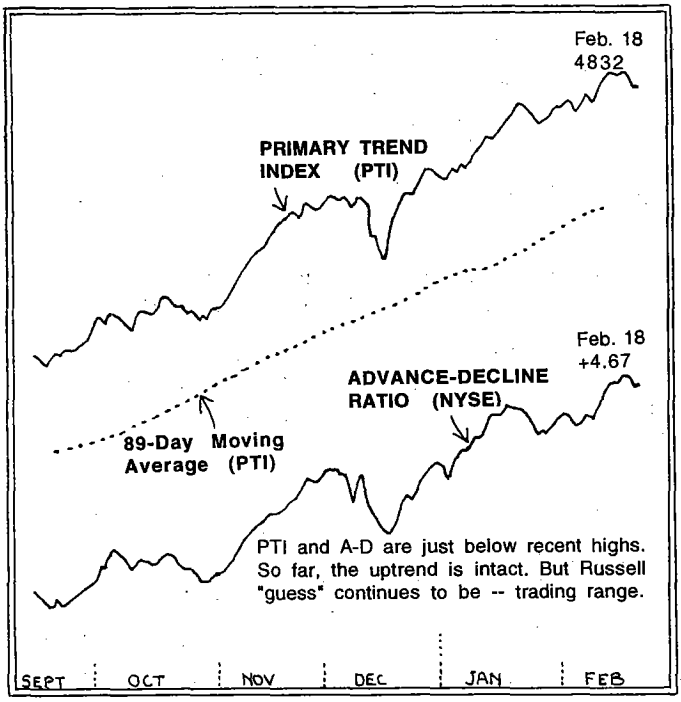
NEW ERA?: In Letters over the past few years I've presented (time and time again) the bears' **overvaluation argument** concerning the stock market. Obviously, this argument has not halted the market's climb. The market, to put it bluntly, has totally ignored the overvaluation arguments. When the market doesn't do what "it's supposed to do," it's best to look in another direction. This market, obviously, has been "marching to the cadence of a different drummer."

Of course, my Primary Trend Index has been saying this all along. The PTI turned up in 1990, and it really has never stopped climbing. So you have to ask yourself, "What's the other side of the coin? Why has this market ignored all the time-honored warning signals?" For that we have to turn to those who espouse the **"New Era" view** of the market. (I also present an interesting "New Era" view in the Notes & Quotes section of this Letter.)

Personally, I find the argument for the New Era market, if nothing else, interesting. For the first time in history we have a thoroughly global investment playing field. That alone makes today's investment climate "different." Then we have the phenomenal climb of MOST of the major stock markets of the world. Finally, we have the total absence of an important correction in the US market. In six years the Dow has never lost as much as 10% on a closing basis. Old timers (like me) can only shake our heads in wonderment.

With it all, I have my own name for this bull stock market. I call it the **"LOOK OVER MY SHOULDER BULL MARKET."**





Why did I give such an awkward name to this market? Simple, because this market has continued to work its way relentlessly higher, and all the while knowledgeable traders and veteran investors continue to look nervously over their shoulders.

What are they looking for? They're looking for the big correction, the long-predicted collapse, the sell-off which will prove that every market is a two-way street. And here's the irony -- the higher this market climbs, the MORE nervous the veteran investors, and the more intensely they peer over their shoulders.

I've pondered long and hard as to why this market continues to rise, and why it has ignored so many of the "rules" of Wall Street. Here's what I see.

(1) I see the obvious, which is the **unabated flood of money** pouring into the mutual funds -- and from there directly into the stock market.

(2) I see **global reliquefaction.** Sharply rising stock markets in themselves cause reliquefication as values increase. Now consider this -- with the huge Japanese position in US Treasuries, the value of Japanese institutions' overseas investments since the '95 low has risen by 17% which translates into a whopping increase (profit) of $180 billion. On top of this, Japanese short term interest rates are down to 1/2%. In other words, the Japanese banks are literally "giving money away." And despite well-documented troubles in Japan, their stock market appears to have bottomed out.

(3) Unemployment in Germany has risen to a post-WWII high of 12.3%. Despite this, the German stock market recently rose to record highs on nine consecutive days. Has the German stock market lost its mind? No, the bet has to be that the German stock market is **looking ahead** to better times.

(4) Or consider this -- despite high unemployment in most European nations, European stock markets across-the-board continue to rally to new highs. The markets obviously believe that rising liquidity will translate into better times.

(5) According to the G-7 nations the dollar is now "too strong." The too strong dollar is beginning to hurt US export-manufacturers (particularly autos). Rates in the US are the highest in the world for a major currency, and these rates are drawing money to the US like a giant magnet. The G-7 group would like to bring the dollar down a bit or at least stabilize it in this area. One way would be to raise rates in Europe, thereby making European currencies more attractive. However, with high unemployment and politicians under intense pressure to "do something," the last thing European central banks want to do is raise interest rates.

All right, what about the US lowering rates? Lowering rates in the face of a "hot" US stock market? That would be a shocker, but it could happen, particularly if dollar strength continues (in fact, the advancing bond market is already lowering US rates, without benefit of the Fed). Of course a third choice would be to flood the world with dollars, thus lowering the value of the dollar. Could that happen? It may be happening now, if we can believe the M-3 money supply figures (which are rising strongly).

(6) I consider all the above pieces of a global puzzle -- or perhaps I should say, pieces of a global phenomenon. In the back of my mind I find myself wondering -- are all these stock markets telling us that we are slowly but relentlessly moving into a GLOBAL BOOM situation? Is this what's behind the extraordinary parade of new highs in the world's stock markets? The only major stock market that is still far behind is Japan's Nikkei. But if the Nikkei starts to move up (and it looks like that's happening), the case for a global boom becomes even stronger. Let's watch this situation as it unfolds. Frankly, I've never seen anything quite like it.

(7) Japan and the Europeans are watching the US economy with something approaching awe. And they're not stupid, they see that the US, with its relatively free capitalistic system, is beating the rest of the world in the battle for business success and investment profits. But this is what's so interesting -- the pressure is on Japan and Europe to be *"more like America."* The fact is that these nations have no choice. They're being dragged kicking and screaming into the wildly competitive global economy. Ah, but to succeed in the global economy, they will have to relax their strict laws, allow freer labor markets, become friendlier to business, and most definitely -- pull back on their "cradle to grave" goodies for their citizens. And that's where the big political battles will emerge.

VOLATILITY: I haven't written a whole lot about volatility, but if you understand the implications of volatility, it can tell you a lot about the psychology of the market. Actual volatility measures the rate of change of an item over a given period of time.

"Implied volatility" is different. Implied volatility is derived **from the price option-writers charge** when they *sell* puts and calls. In recent months and up to the present implied volatility has been *near record highs* in the S&P -- with put option prices running almost twice the price of calls for options the same distance away from the actual market price.

Why is implied volatility running so high? Three reasons: **(1)** The huge daily movements in the market have been making option-sellers nervous. ("Hey, in a market this wild, with the Dow up and down 50 to 100 points a day, anything can happen.") **(2)** Many stockholders have big profits under them; consequently the *demand* for puts is huge (buying puts is insurance; it protects you on the downside). **(3)** Call buyers are betting on a rising market. Buyers of calls on the S&Ps have been making big money for months. They want to stay with the "rising market," and thus there is a big demand for calls. **(4)** It's supply and demand in the option-selling market, and the demand on both sides remains very large, which translates into "expensive" put and call prices. This in turn translates into very high implied volatility.

IF the market now goes into a trading range, buyers of both puts and the calls will be sitting with options that are expiring worthless. This, of course, is where the option-writers (i.e., the sellers of options) make their real money.

PRIMARY TREND INDEX (PTI): A subscriber asked me, "Russell, what's been the most difficult thing you've had to do over the past few years?" Without a moment's hesitation I answered, "For me, the hardest thing to do was to follow the PTI and believe what it was saying." And yet, ironically, in retrospect, the ideal procedure to adhere to over the past number of years was to blindly follow the PTI.

One reason this is so difficult is because the PTI is a totally emotionless indicator -- **it doesn't give reasons.** The PTI doesn't care about values, past history, overboughts, oversolds, sentiment or anything -- except **market action.** And you ask yourself, "How can the market go up when yields are below 2%?" Or "how can the market continue up when it hasn't had as much as a 10% correction in six years?" Or "how can the market advance when we're in the fifth year of the presidential cycle and the seventh year of the decennial cycle?" As for the PTI, it couldn't care less.

A few subscribers called last week to ask, "Could the PTI and the market just turn down one day from record highs -- and collapse?" In other words, could a crash materialize out of nowhere? In answer I turned to the chart that appeared in Letter 978 (November 18, 1987). That Letter was written a few months after the great 1987 crash.

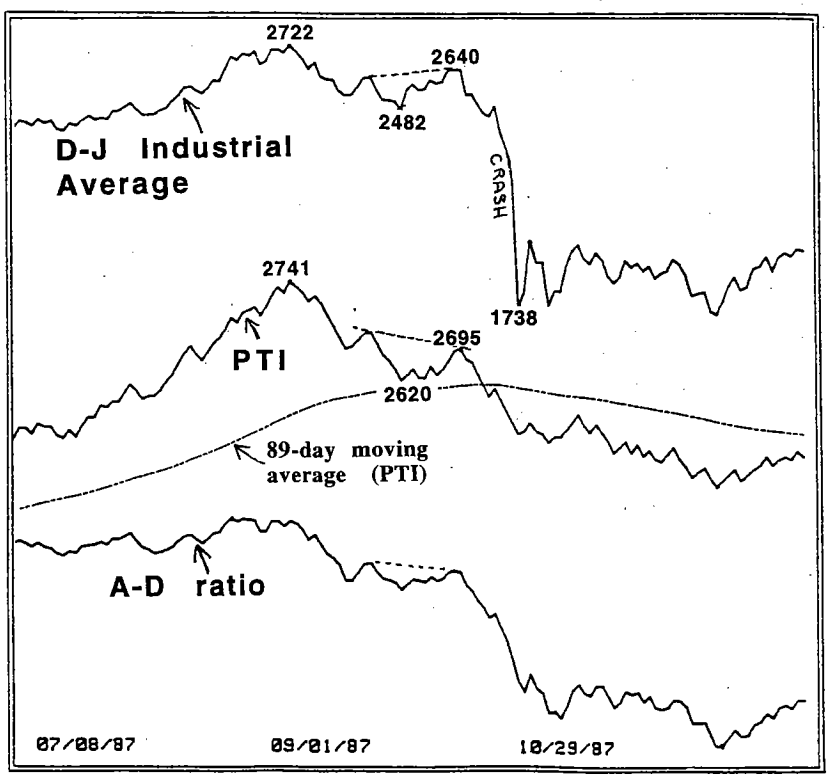
Let's study this chart to see if there were any warnings prior to the crash or whether the crash simply came "out of the blue."

First we have the August Dow high of 2722 matched with the PTI high of 2741. Then we have the decline down to the September Dow low of 2482 matched with the PTI low of 2620. So already we had early warnings; notice that the PTI had traced out a clear declining zig-zag pattern, an indication of weakness.

The next rally provided a second and more important warning. Here the Dow rallied to a September peak of 2640 while the PTI at 2695 **refused to confirm.** Note also that during this whole period the advance-decline ratio continued to head lower, each rally peak in the A-D halting below the preceding rally peak. In other words, despite Dow strength, both the PTI and the A-D ratio were exhibiting weakness.

Following the rally peak at Dow 2640, the market headed down again, and this time Wall Street was headed for real trouble. On October 19 the Dow crashed 509 points, producing a loss of 22.6% in a single day. That crash created "psychic scars" on the minds of investors and traders that exist to this day.

Conclusion: Personally, I've never studied or lived through a market crash that was not preceded by either rising interest rates or obvious technical deterioration in the market or both. I guess it's possible that a crash could come out of a clear blue sky, but as I said, I've never seen it happen.



INVESTMENT POSITION: The bull, the oldest bull in history, remains in the box. As discussed at the beginning of this Letter, I suspect the market is going into a trading range. Historically, as a matter of fact, the market -- any market -- spends two-thirds of the time non-trending or in a trading range. It seems to me that this market is overdue for just that kind of back-and-forth "non-trending action."

In the meantime, I'll continue to scrutinize the technical condition of the market. Actually, this is what the PTI does for me. A relentless rising trend in the PTI (which is what we've been witnessing for months) will always carry the stock market higher. Conversely, a persistent declining trend in the PTI means that the under-structure of the market is deteriorating and that prices are being forced lower. When that happens, we wait to see whether the PTI breaks below its 89-day moving average. A decisive break below the MA means trouble. But we're a long way from that happening, as this is written.

NOTES & QUOTES: Merrill Lynch looks for S&P earnings to rise by 6% to $44 in '97. "In our first look at next year, we expect a *further slowdown* in earnings momentum, with the S&P operating results edging up by 3% to $45.50 in 1998." **Russell comment:** As a result, the *projected* earnings yield (i.e., earnings divided by price) for the S&P is now 5.6%. This means the earnings yield for the S&P is 1% below the yield on the long Treasury bond, meaning that the S&P is somewhat overvalued (historically, the projected earnings yield for the S&P and the long bond yield should be about the same).

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The G-7 group would like to cap the dollar's rise. So far, however, it's all been talk. According to the *Financial Times* of London, "Some US economists said that while the G-7's effort might put a temporary cap on the dollar, they expected further upward pressure on the currency to test the finance ministers' resolve to hold it down by forcing them to intervene in foreign exchange markets . . . The G-7's move could also lead to a temporary slowdown in the flow of foreign money into the US Treasury bond market, particularly from Japan, Wall Street economists said. This would remove one of the forces that has supported the strong rise in US financial markets generally."

This from the *Economist* (Feb. 8): "America's huge current-account deficit requires financing from abroad, and this has turned America into the world's biggest foreign debtor . . . as long as America depends on foreign savings, its currency will not truly be strong."

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The following is from Steve Leuthold's *Perceptions* (PO Box 300527, Minneapolis, MN 55403): "Here's why I am basically a stock market wimp. As never before in US market history, this is a Main Street market, driven by mutual fund investment flows of typically naive and inexperienced individual investors who claim to be committed to equity investments for the 'long term.' Unlike 1929, high rollers and highly margined speculators are NOT the drivers. Rather it's mutual fund investors . . . A shift in psychology will crush this market. It is not a professional's market or an institutional driven market. It is a Main Street market with most mutual fund professionals being slaves to public inflows."

The *NY Times* (Feb. 11) featured an article entitled, "A New Era For Taking Market's Pulse; Analysts Redefine Valuation of Stocks." The article goes on to say that several leading Wall Street analysts are "counseling that the old rules no longer apply when judging whether the stock market has soared beyond reason." This new group is called the New Era group, and they sincerely believe that there are new factors that justify today's prices.

Abbey Cohn of Goldman Sachs was quoted as a leading New Era proponent. "I have been a New Era person since 1991. It is easy for me to see that many of the people in this age group (i.e., the baby boomers) were beginning to increase their investment levels." Another New Era devotee, Richard Bernstein of Merrill, notes that the market has soared 68% in the last two years even though conventional methods of fair value have been flashing warning signals for some time. "If everybody knows that the market is overvalued and it is not going down -- then, and these are dangerous words -- something may be different."

In the meantime, Thomas Friedman in a fascinating *NY Times* column states that (remembering Greenspan's deathless words) the US really should be "exuberant." Here's are Friedman's thoughts (and there's obviously a great deal of truth in what he says):

The Davos World Economic Forum is an annual gathering of the captains of industry and politics from around the world. Each year there is a star at Davos, someone who seems to define the moment. In the past, the stars have ranged from the financier George Soros to the Russian Communist leader Gennadi Zyuganov. This year the star at Davos was America. Whether it was Bill Gates of Microsoft or Andy Grove of Intel or Lawrence Summers of the U.S. Treasury, when Americans were on the dais people seemed to stay a little longer, listen a little harder. It seemed to be their way of saying that the U.S. growth model — not the rigid Japanese one, and certainly not the inflexible European one that has fallen far behind the U.S. in producing new information technologies — is now in the ascendancy.

And why not? If 100 years ago someone told you that by the end of this century the defining feature of world affairs would be "globalization" — the integration of financial, information and trade networks to create a single, high-speed global marketplace — and that you had to design a country best suited to compete in such a world, in many respects you would have designed today's America.

The U.S. has the world's most diverse and efficient capital markets, which reward, and even celebrate, risk-taking. Anyone with an invention and a garage can hope to raise millions overnight. It has a multicultural population that speaks the language of the Internet, a constantly renewing flow of immigrants, a transparent legal and regulatory environment and a flexible federal political system. It has a job market that enables workers to move easily from one hot industrial zone to another, and a corporate sector that has, unlike Europe's or Japan's, already gone through the downsizing and restructuring needed for global competitiveness. It has multiple economies, with a single currency, on a single continent that looks to both the Pacific and the Atlantic.

And, most important, its big multinational companies and little entrepreneurs think globally and excel in almost everything that is post-industrial: software, computing, package delivery, consulting, fast food, amusement parks, advertising, media, entertainment, hotels, financial services, environmental industries and telecommunications.

Globalization is us.

Of course, the stock market's sustained rise can be easily explained by traditional macro-economic factors — low interest rates, low deficits, improved productivity — and if these factors turn sour so will the market. But I suspect that there is another unarticulated, unquantifiable factor behind the market's rise. I would call it "The Globalization Premium." That is a sense among global investors that somehow the whole mix of America — its society, its culture, its technology, its business environment and its geography — meshes more naturally with globalization than either Europe or Japan. It is a sense that while many in Europe and Japan are still trying to adjust to the demands of globalization, and are barely up to the starting line, the U.S. is already around the first turn.

There is no way the U.S. can afford to be complacent, or ignore its underlying problems — our weak public schools and inner cities, our widening income gaps and our low savings rate that makes us very dependent on others. But it still seems to me that something more is going on with America than just another uptick in the business cycle. It is a structural change that makes America a very good fit with the brave new world. Call me crazy, but I think it merits a little rational exuberance. □

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INDEX: I was wrong about the number of index funds in existence. There are now 119 index funds with roughly $100 billion in assets. And new ones seem to be coming on the market almost weekly.

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MANIA? An article in the Feb. 18 *LA Times* asks whether today's stock market qualifies as a mania. My own feeling is that the current stock market resembles a mania in terms of public participation and in terms of expectations (and in terms of 8,000 mutual funds). Actually, many intelligent analysts make a strong case for the stock market not being too overvalued, based on earnings projections, the new global economy, the rise of the information age, etc. Personally, I put more emphasis on **public participation.** Never in history have so many individuals and families been "in" the stock market. Never has the media been obsessed with Wall Street. It's the popularity of owning stocks that I believe qualifies the current situation as a mania. I say this with the knowledge (based on history) that the great majority of people never go a full bull and bear cycle without losing their money. The enthusiasm, the optimism, the willingness of **63 million people** to buy and hold stocks, I believe, will ultimately classify this period as a mania. This, of course, doesn't mean that the bull market has to end anytime soon.

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After observing the recent presidential election, I'm 100% for changing the rules regarding money-raising in politics. Furthermore, I've concluded that a single six-year presidential term is the way to go. The spectacle of a president being elected and then spending his entire first term raising money and endlessly campaigning for a second term, a la Clinton, is disgusting. Of course, hopefully, we'll never have another president like Clinton.

* *

Special Counsel Starr quitting before his investigations were over? An angry *NY Times* editorial termed it "a selfish indifference to his important civic obligations." Syndicated Columnist William Safire was livid: "The lure of the easy life at 'Malibu U', and a warped view of duty led Starr to shirk the responsibility he sought as Independent Counsel just before the moment of prosecutorial decision. He has reminded us that even a man who has led an exemplary life can wimp out at the end. Never on a question as vital as criminality in the White House has a public servant left behind such a monumental pile of unfinished business." It was all too much for Mr. Starr. He was shocked and embarrassed by the reaction. On February 21 he announced that he had reconsidered -- he was staying on. There was no celebration in the White House.

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By the way, Clinton should be given the super-chutzpah prize for the following. After selling White House coffee klatches and overnight stays to *anyone* with the right amount of money, Clinton comes out for tougher campaign finance laws. ("Mistakes were made," said the President.) I mean it takes real gall to grab all the money in sight by whatever means, and then announce that the laws should be changed. Note: from the looks of it, nothing's going to change in campaign finance. Like term limits (which has just been defeated), Congress votes for what's good for itself. And believe me, they LIKE the current system.

* *

It looks to me as if the markets are saying that the worst is over for Japan, the yen and the Nikkei. The yen has hit its low and is now moving up (as has the Japan Nikkei stock index which just pushed over 19,000). For the first time in years the yen has passed the "Big Mac test." A Big Mac hamburger in Tokyo costs $2.26 in dollars vs. $2.89 in New York.

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Money magazine sent a theoretical income tax return to 45 tax preparers. The magazine got back 45 different answers. In the meantime, the IRS complains that the US tax system is so difficult that they cannot build a computer program to handle it (this after $4 billion in computer efforts have gone down the drain). It's clear that the US tax system is hopelessly complicated and, for most people, absolutely incomprehensible. A few leading Republicans are again pushing for a national sales tax or a consumption tax. But Clinton has said no. The fact is that a national sales tax would take the tax system out of the hands of the politicians. For that reason, it

won't get anywhere. I don't think we'll get a sane tax system until either the present system breaks down completely or we get a Republican president and Congress (and even then it's a 50/50 proposition). Note: Steve Forbes continues to push for a flat tax, and he sounds to me like a presidential candidate.

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The Japanese have been huge buyers of US Treasury bonds. With the dollar appreciating roughly 53% against the yen since the yen's '95 low, some forward thinkers believe that the Japanese, with profits both in bond appreciation and huge dollar appreciation in terms of yen, could start taking profits. Selling treasuries for dollars and then converting those dollars to yen would also fit into the Japanese strategy of re-liquefying their economy. If it happens, it's going to put pressure on the US bond market.

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Julius Caesar Watts, Jr., better known as J. C. Watts, delivered the Republican reply to Clinton's State of the Union Address. Watts has six kids (one more than I do), and he knows what it is to rise from poverty (actually, he was a star football player at Oklahoma). The following is from last week's *New Yorker*: "As Watts sees it, the Democrats have fallen into the trap of trying to show so much sympathy for the downtrodden that they've forgotten what it takes to escape being a victim. 'My father was always giving me these corny old sayings when I'd complain about baling hay or tending cattle -- you know, 'life is not a bed of roses, son,' that kind of thing. I used to think he was just talking, but now I know he was right. But the Democrats just keep lowering the bar, so nobody has to try as hard. I just had to become a Republican. The Democrats don't have any use for my kind now. But they will again. They'll have to.'"

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The current issue of *Worth* magazine features an article entitled, "The Rise of the Super Middle Class." The article states that while much of America is having a hard time financially, 5% of American families now earn more than $120,000. These are the super middle class. Interestingly, the rise of the super middle class is due mainly to the increasing percentage of married women in the labor force. The article continues, "Add two professional incomes together and the super middle class is assured." The article adds, "The super middle class don't jet around the world or hang out with the beautiful people. They work longer hours than most Americans, and they worry about retirement, about losing their jobs, about taking care of their aging parents, and about paying for their kids' college tuition . . . They work hard for their families, but they work so hard that the don't have time for their spouses or their kids . . . High-income people put in long hours to earn their income. Men in the top 5% of income earners worked on average 2,597 hours a year per person or about 50 hours a week. Women in the top 20% of all households worked 1,434 a year on average."

Do you want to know which class you're in? Here's the story, according to the article (example, if you live in California and your family income is $181,000 you're in the "real affluence" class (but you're not rich yet).

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Dr. Dean Ornish is evidently getting good results from heart patients who suffer from angina pains. His program consists of exercise, meditation, stress reduction and a very strict vegetarian diet of veggies, fruits, and grains but no chicken, fish, nuts, meat, dairy and overall less than 10% fat. Two-thirds of the participants in the Ornish program experienced loss of angina pains plus lowered cholesterol.

Russell comment: I'm sure this is a good program, but the diet is severe and very difficult to stay with. That's the trouble with most diets, they are so difficult to stick with. I continue to believe that one of the best diets is strictly protein for breakfast and lunch and anything you want "within reason" for dinner (but try to avoid fats and sugars). Personally, I find that very early dinners are beneficial (I eat at 5PM); early dinners mean that you go to bed with an empty stomach. My mother, who lived to be 92, had a motto which seemed to work -- moderation in everything. My mother arranged her life so that she avoided stress, which again meant living moderately and modestly. As for re-marriage, she nixed it saying that "men are more trouble than they're worth."

Last week I talked with my mother's childhood friend, Amy Snyder, who lives here in La Jolla. Amy will be 103 in October. I asked Amy for the secret of her longevity. She laughed and said, "The only thing I can think of is that I take a shot of Scotch every evening at 5PM."

I don't know if it's possible to lose weight permanently without exercise. I spend at least 35 minutes on the Stairmaster every day (unfortunately, I have "bad feet" so I can't use a treadmill). I note that among men over 50, the great majority are in poor shape, bulging stomachs, poor posture, poor muscle tone. Only one way out of this -- exercise.

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I continue to receive requests for information about chelation (key-lation). My suggestion -- go to a health food store and buy one of the many books on chelation. Or call **(800)728-2288** and order the book, **"The Chelation Answer."** Literally billions of dollars are spent each year on various heart devices, everything from roto-rooter type "artery cleaners" to tiny TV tubes for specialized surgery. The medical profession continues to pooh-pooh chelation. If chelation is ever approved for cleaning out arteries, the economic consequence for the biotech, hospital and medical profession would be -- er -- profound.

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PC prices are practically crashing. PCs we bought a year ago for $1500 are selling for under $1000 today. Last month Packard Bell/NEC launched its $799 PC. PCs we bought two years ago are underpowered antiques today. One of the big problems is what to do with all those millions of non-biodegradable PCs. They're forming mountains of plastic that become ever-larger.

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A friend asked me, "Russell, what's your hobby, what are you interested in?" I answered, "Well, I'm not a golfer and I'm not a hiker. I ride my motorcycle a lot less than I used to, and I do love my Cactus garden. But my real interest is world news, trends, the markets, what's happening." My friend then asked, "How do you pursue

WHO BELONGS TO THE SUPER MIDDLE CLASS?

That depends on state and city. It takes about 250 percent of the median income in a state to qualify. Add another 25 percent if you live in an expensive urban area. Real affluence begins at about 500 percent of the median and "rich" at 1,500 percent.

STATE	Median Household Income	Super Middle Class	Real Affluence	Rich	STATE	Median Household Income	Super Middle Class	Real Affluence	Rich
Alabama	$27,196	$67,990	$135,980	$407,940	Montana	$27,631	$69,078	$138,155	$414,465
Alaska	45,367	113,418	226,835	680,505	Nebraska	31,794	79,485	158,970	476,910
Arizona	31,293	78,233	156,465	469,395	Nevada	35,871	89,678	179,355	538,065
Arkansas	25,565	63,913	127,825	383,475	New Hampshire	35,245	88,113	176,225	528,675
California	35,331	88,328	176,655	529,965	New Jersey	42,280	105,700	211,400	634,200
Colorado	37,833	94,583	189,165	567,495	New Mexico	26,905	67,263	134,525	403,575
Connecticut	41,097	102,743	205,485	616,455	New York	31,899	79,748	159,495	478,485
Delaware	35,873	89,683	179,365	538,095	North Carolina	30,114	75,285	150,570	451,710
District of Columbia	30,116	75,290	150,580	451,740	North Dakota	28,278	70,695	141,390	424,170
Florida	29,294	73,235	146,470	439,410	Ohio	31,855	79,638	159,275	477,825
Georgia	31,467	78,668	157,335	472,005	Oklahoma	26,991	67,478	134,955	404,865
Hawaii	42,255	105,638	211,275	633,825	Oregon	31,456	78,640	157,280	471,840
Idaho	31,536	78,840	157,680	473,040	Pennsylvania	32,066	80,165	160,330	480,990
Illinois	35,081	87,703	175,405	526,215	Rhode Island	31,928	79,820	159,640	478,920
Indiana	27,858	69,645	139,290	417,870	South Carolina	29,846	74,615	149,230	447,690
Iowa	33,079	82,698	165,395	496,185	South Dakota	29,733	74,333	148,665	445,995
Kansas	28,322	70,805	141,610	424,830	Tennessee	28,639	71,598	143,195	429,585
Kentucky	26,595	66,488	132,975	398,925	Texas	30,755	76,888	153,775	461,325
Louisiana	25,676	64,190	128,380	385,140	Utah	35,716	89,290	178,580	535,740
Maine	30,316	75,790	151,580	454,740	Vermont	35,802	89,505	179,010	537,030
Maryland	39,198	97,995	195,990	587,970	Virginia	37,647	94,118	188,235	564,705
Massachusetts	40,500	101,250	202,500	607,500	Washington	33,533	83,833	167,665	502,995
Michigan	35,284	88,210	176,420	529,260	West Virginia	23,564	58,910	117,820	353,460
Minnesota	33,644	84,110	168,220	504,660	Wisconsin	35,388	88,470	176,940	530,820
Mississippi	25,400	63,500	127,000	381,000	Wyoming	33,140	82,850	165,700	497,100
Missouri	30,190	75,475	150,950	452,850					

Sources: Bureau of the Census and Worth

that interest?" My answer, "I read, I watch TV, I read and I read some more. Every day without fail I read the *New York Times* (indispensable), the *Wall Street Journal* (a must), *Investor's Business Daily*, the *LA Times*, the *San Diego Union*, the *Christian Science Monitor* (excellent original reporting), the *International Herald Tribune* (a great paper), the *London Financial Times* (a truly international paper), and the *USA Today* (I've read this from the day it came out and have always liked it). Besides all these daily newspapers, I read the weekly *Washington Times* and the weekly *Washington Post* (excellent with much investigative reporting). AND, on top of all these, I'm a magazine maniac -- I read or peruse too many magazines to mention here. The one indispensable -- *The Economist* (I hear Bill Gates reads this from cover to cover for whatever that means).

CHART BOOKS: Don't ask me why but in an industry that involves trillions of dollars, nobody else does this. What I'm talking about is chart books of the **D-J Averages** and the all-important **breadth index** (i.e. advance-decline ratio). I've been offering these chart albums for decades, and I feel they're invaluable. Actually, I started these chart albums back in the '60s because I needed the data myself. The first volume is a *complete history* of the D-J Averages (all three Averages plus bonds and volume) going back to **1885**. Important economic and world events are notated on each page. The charts are packed in a big three-ring, hard-cover binder, one page for each year. The album is yours for $135; we pay the postage in the states. The second album covers the Dow and the extremely important A-D ratio (daily) going back to 1931. Comments regarding the action are included in many of the pages (one page for each year). The price is $95, we pay US postage. **For those who own the chart books**, the new 1996 pages are ready, price is $5 for the page of the Averages and $5 for the new A-D ratio page. Please send your money in now (outside the states there's an extra postage charge of $35 for each album). Write to Dow Theory Letters, PO Box 1759, La Jolla CA 92038.

PRECIOUS METALS: What's this -- could something finally be happening in the precious metals area? Very probably (the reason I sound tentative is because it's been so long since the metals have appeared bullish that any precious metal-watcher has to be almost afraid to suggest optimism).

In recent Letters I talked about the extreme gloom, the black-bearish sentiment which had enveloped the precious metals area. Call options on gold were literally being "given away" (they are considerably higher now), and the value of gold as a monetary metal was being openly questioned. ("Who needs gold when we can buy inflation-adjusted T-bonds?") In all, it is the kind of atmosphere that tends to appear at bear market bottoms.

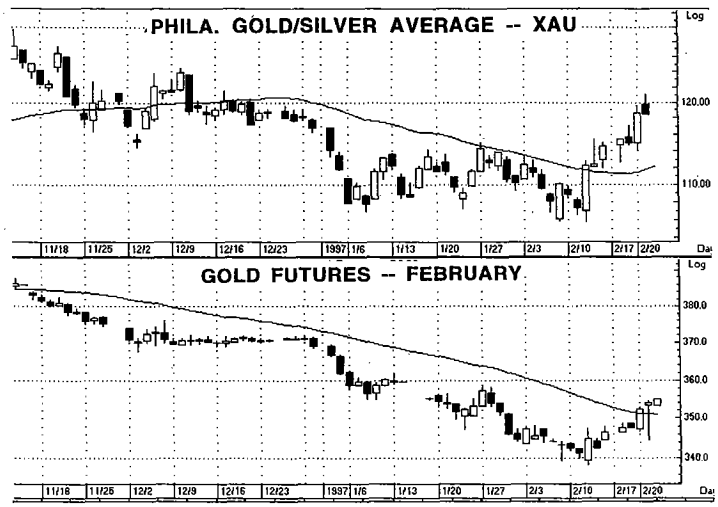
Market action supersedes all opinions so let's study the dual chart. The June gold futures hit a low of 340 on February 12. From there gold futures rallied to a high of 351 on Feb. 19. The 34-day moving average is 355. If the June futures can get over 355, it will be a big plus. A much bigger plus would be getting over the January 27 high of 362.

The XAU Phila. Gold/Silver Index looks better than the metal. The Jan. 27 high for the index was 114.56. The index has now moved up strongly into the 120 area. The 34-day moving average for the XAU stands at 112 and has bullishly turned up. Conclusion: bullish.

Meanwhile, lagging gold (the metal) is looking better. The February gold contract hit an extreme low on February 12 at 338.5. From there it has rallied gingerly. The 34-day moving average for Feb. gold stands at 351.20. On February 20 gold closed above its MA, and on February 21 gold pushed completely above the MA.

When the precious metals turn bullish, for confirmation purposes I like ALL the precious metals to turn bullish. The move in the metals was led by palladium and silver (silver is now up 16% from its January 20 low). Even platinum, with a Feb. 3 low of 350, has now climbed to the 370-375 area.

So that's the story for the metals so far. It's a better story than I've seen for many months, but obviously I want to see more.



WHEN WILL MARKETS' BUBBLE BURST? 1B

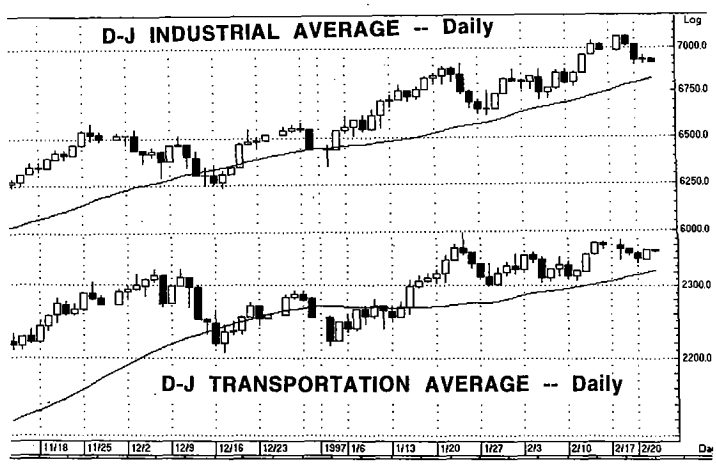
WE'RE WORRIED BUT FULLY INVESTED, 1,8B

▶ TAKING MONEY OUT OF STOCK FUNDS, 8B

LATE NOTES: This "look over your shoulder" stock market has generated a large amount of fear, even among bulls. The big question on everybody's mind seems to be, "When will the stock market crash?" Note this headline from the front page of last week's (February 21) *USA Today*. Of course, the market "can do anything," but in my experience this is not the kind of atmosphere in which bear markets start.

Therefore, I'll repeat what I said on the first page of this Letter -- I "think" the market is moving into a trading range, maybe an extended trading range. There's been too much buying of options for both the upside and the downside. Option premiums are sky-high. A trading range would bring volatility way down -- and leave all those option buyers with zero profits.

This is a chart of those two old stalwarts, the Dow and the Transports. Both continue to hold above their shorter-term (34-day) moving averages. The 34-day MA for the Dow stands at 6794; for the Transports it's 2319.



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